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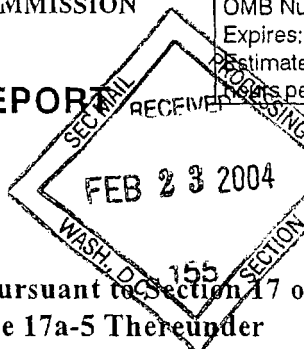
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

OMB APPROVAL	
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SEC FILE NUMBER
8-21563

REPORT FOR THE PERIOD BEGINNING 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **COMMONWEALTH SECURITIES AND  
INVESTMENTS, INC.**

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1317 INVESTMENT BUILDING

(No. and Street)

PITTSBURGH,

(City)

PENNSYLVANIA

(State)

15222-1745

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

EDWARD G. KLUMP412/355-0851

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

LALLY, LALLY & CO. LLC

(Name - if individual, state last, first, middle name)

5700 CORPORATE DRIVE, SUITE 800, PITTSBURGH, PENNSYLVANIA 15237

(Address)

(City)

(State)

(Zip Code)

## CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 15 2004

THOMSON  
FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of  
information contained in this form are not required to respond  
unless the form displays a currently valid OMB control number.

# OATH OR AFFIRMATION

I, EDWARD G. KLUMP, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of **COMMONWEALTH SECURITIES AND INVESTMENTS, INC.**, as of DECEMBER 31, 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

  
Signature

**VICE PRESIDENT**

  
Notary Public

Notarial Seal  
Deborah Anne Carson, Notary Public  
City of Pittsburgh, Allegheny County  
My Commission Expires May 15, 2006  
Member, Pennsylvania Association of Notaries

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of ~~XXXXXXXXXXXXXXXXXXXX~~ **CASH FLOWS.**
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) **Independent Auditors' Report on Internal Control Pursuant to Rule 17a-5.**

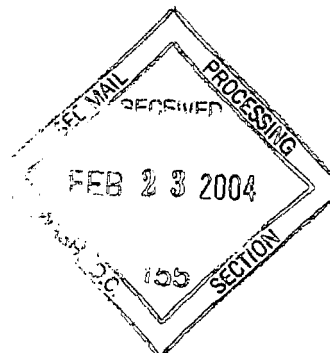
\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**COMMONWEALTH SECURITIES AND  
INVESTMENTS, INC.**

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2003**

COMMONWEALTH SECURITIES AND INVESTMENTS, INC.  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2003



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**Lally, Lally & Co. LLC**

*Certified Public Accountants & Business Advisors*

5700 Corporate Drive, Suite 800  
Pittsburgh, Pennsylvania 15237-5851  
Telephone 412•367•8190  
Facsimile 412•366•3111  
[www.lallycpas.com](http://www.lallycpas.com)

## **INDEPENDENT AUDITORS' REPORT**

Commonwealth Securities and Investments, Inc.  
Pittsburgh, Pennsylvania

We have audited the accompanying statement of financial condition of **Commonwealth Securities and Investments, Inc.** (the Company) as of December 31, 2003. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of **Commonwealth Securities and Investments, Inc.** at December 31, 2003, in conformity with U.S. generally accepted accounting principles.

*Lally, Lally & Co. LLC*

January 23, 2004

**COMMONWEALTH SECURITIES AND INVESTMENTS, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2003**

**ASSETS**

Cash and Cash Equivalents	\$ 1,458,924
Securities Owned - At Market Value	928,558
Other Assets	34,537
Furniture and Equipment - At Cost, Less Accumulated Depreciation of Approximately \$187,000	<u>10,783</u>
<b>Total Assets</b>	<b><u>\$ 2,432,802</u></b>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**Liabilities**

Accounts Payable, Accrued Expenses, and Other Liabilities	\$ 189,618
Loans Payable on Demand	316,880
Commissions Payable	<u>196,640</u>
<b>Total Liabilities</b>	<b><u>703,138</u></b>

**Stockholder's Equity**

Common Stock	3,000
Retained Earnings	<u>1,726,664</u>
<b>Total Stockholder's Equity</b>	<b><u>1,729,664</u></b>

<b>Total Liabilities and Stockholder's Equity</b>	<b><u>\$ 2,432,802</u></b>
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The accompanying notes are an integral part of this financial statement.

**COMMONWEALTH SECURITIES AND INVESTMENTS, INC.**  
**NOTES TO FINANCIAL STATEMENT**

**NOTE 1 – ORGANIZATION**

Commonwealth Securities and Investments, Inc. was incorporated in July 1974 and was organized under the laws of the Commonwealth of Pennsylvania. The Company operates as a securities broker-dealer under the Securities Exchange Act of 1934 and is registered with the National Association of Securities Dealers, Inc. (NASD).

The Company maintains its offices in Pittsburgh, Pennsylvania. The Company performs underwritings and provides investment banking services principally for Pennsylvania municipalities and public entities. The Company also executes securities transactions for customers and on its own account.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

The statement of financial condition of Commonwealth Securities and Investments, Inc. is presented on the accrual basis of accounting and is prepared in conformity with U.S. generally accepted accounting principles. In order to facilitate the understanding of the data included in the financial statement, summarized below are the more significant accounting policies.

Municipal Underwriting

Municipal underwriting revenue consists of underwriting and advisory fees. Underwriting fees are recorded at the time the underwriting is completed and the revenue is reasonably determinable, typically on a settlement date basis.

Securities Transactions

The Company utilizes Pershing LLC on a fully disclosed basis in connection with execution and clearance of the securities transactions effected by the Company. The Company does not carry securities accounts for customers or perform custodial functions relating to customer securities. As such, the Company operates under the (k)(2)(ii) exemptive provisions of SEC Rule 15c3-3.

Securities transactions, together with the related commission revenues and expenses, are recorded on the settlement date basis, generally the third business day following the trade date.

Estimates Used

The Company uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**COMMONWEALTH SECURITIES AND INVESTMENTS, INC.**  
**NOTES TO FINANCIAL STATEMENT**  
**(CONTINUED)**

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Cash Equivalents

The Company includes amounts on deposit with banks and amounts invested in money market instruments with other financial institutions as cash and cash equivalents.

The Company's cash and cash equivalents are comprised of funds in bank accounts with a bank located in Western Pennsylvania totaling approximately \$145,200 and funds held at the clearing agent totaling approximately \$1.31 million as of December 31, 2003. The funds held at the clearing agent could be subject to withdrawal restrictions in the event that cash and the market value of securities held falls below 115% of loans payable to the clearing agent. As of December 31, 2003, there were no restrictions on withdrawal.

Securities Owned

Securities owned consist of U.S. Government and municipal obligations carried at market value.

Furniture and Equipment

Furniture and equipment are carried at cost. Depreciation of furniture and equipment is computed using the straight-line method over the estimated useful life of the assets.

Loans Payable on Demand

The Company has various loans outstanding to the clearing agent totaling approximately \$316,900 as of December 31, 2003. The average interest rate for the year ended December 31, 2003, was 4.3%. The loans represent securities inventory loans and are secured by the Company's securities owned and funds held at the clearing agent having a combined market value of approximately \$2.24 million.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. For income tax reporting, the Company has a June 30 fiscal year end.

**COMMONWEALTH SECURITIES AND INVESTMENTS, INC.**  
**NOTES TO FINANCIAL STATEMENT**  
**(CONTINUED)**

**NOTE 3 – SECURITIES OWNED**

Marketable securities at market values as of December 31, 2003, consisted of trading and investment securities owned as presented below:

State and Municipal Obligations	\$ 751,000
Federal Obligations	<u>177,600</u>
	<u>\$ 928,600</u>

**NOTE 4 – RETIREMENT PLAN**

The Company maintains a 401(k) retirement plan for the benefit of all eligible fulltime employees, as defined. The Plan provides for employee-participant contributions and discretionary employer-sponsor contributions. No contribution to the Plan has been authorized by the Company's Board of Directors for 2003.

**NOTE 5 – INCOME TAXES**

Approximate deferred tax assets as of December 31, 2003, consisted of:

State Net Operating Loss Carryforward	\$ 228,500
Valuation Allowance	<u>(228,500)</u>
Net Deferred Tax Assets	<u>\$ 0</u>

The Company has a Pennsylvania net operating loss carryover of approximately \$2.3 million which will expire in the years 2007 through 2012. The valuation allowance was established due to the uncertainty of utilization of the state net operating loss carryover. The net change in the total valuation allowance for the year ended December 31, 2003, was an increase of approximately \$7,600.

**NOTE 6 – LEASING ARRANGEMENTS**

The Company leases office space under an operating lease on a month-to-month basis. The Company is also committed to lease certain equipment under an operating lease agreement expiring in November 2006. Approximate annual future minimum lease payment commitments are as follows:

Year Ending <u>December 31,</u>	
2004	\$ 6,500
2005	6,500
2006	<u>6,000</u>
	<u>\$ 19,000</u>

**COMMONWEALTH SECURITIES AND INVESTMENTS, INC.**  
**NOTES TO FINANCIAL STATEMENT**  
**(CONTINUED)**

**NOTE 7 – NET CAPITAL REQUIREMENTS**

The Company, as a registered broker-dealer in securities, is subject to the Securities and Exchange Commission Uniform Net Capital (Rule 15c3-1) which is administered by the National Association of Securities Dealers, Inc. This rule requires that the Company's "aggregate indebtedness" not exceed 15 times its "net capital," as such terms are defined in the rule. The National Association of Securities Dealers, Inc. may require a broker-dealer to reduce its business activity if its net capital ratio should exceed 12 to 1 and may prohibit a broker-dealer from expanding its business if the ratio exceeds 10 to 1. At December 31, 2003, the Company's aggregate indebtedness to net capital ratio was .23 to 1 and its net capital was approximately \$1.67 million. The minimum net capital required is equal to the greater of \$250,000 or 6-2/3% of "aggregate indebtedness" resulting in excess net capital of approximately \$1.42 million. Therefore, the Company was free of all restrictions.

**NOTE 8 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET CREDIT RISK  
AND CONCENTRATIONS OF CREDIT RISK**

The Company has not experienced nonperformance by customers or counterparties in the situations described in the following:

The Company's business involves the participation in underwriting activities, primarily with public entities in and contiguous to the Commonwealth of Pennsylvania. As part of this activity, the Company executes commitments to acquire securities as part of the underwriting and executes security sale transactions with customers. Market risk arises should the value of the securities committed to be underwritten by the Company decline before the closing of the transaction. Credit risk is eliminated through a transaction closing at which time funds are exchanged for the underwritten securities. At December 31, 2003, there were no committed underwriting purchases or sales.

The Company executes customer securities transactions on a cash basis only. The industry requires each trade to settle within a specified time, generally three business days. The Company is exposed to market and credit risk on unsettled transactions in the event of the counterparty's inability to settle the transaction. Accordingly, the Company may have to purchase or sell the securities at prevailing market prices to satisfy the trade. At December 31, 2003, the contractual amount of unsettled purchases and sales were approximately \$11 million and \$9.3 million, respectively. All unsettled trades were closed subsequent to December 31, 2003, with no loss to the Company.

The Company's customers are located primarily in Pennsylvania; accordingly, they are subject to the economic environment of this geographic area. As all transactions with customers are on a cash basis, no accounting loss potential exists on settled transactions. Securities owned are primarily obligations of the U.S. Government and of municipalities within the Commonwealth of Pennsylvania. No off-balance-sheet credit risk exists with respect to these securities, and collateral is not obtained.